



The Advisor

for our Active members

A periodic publication of the Massachusetts Teachers' Retirement System as a service to its members

August 2013

PENSION REFORM III

Interest rate increase prompts record-setting influx of service purchase applications

Unprecedented number of applications filed; please allow 12–18 months for processing

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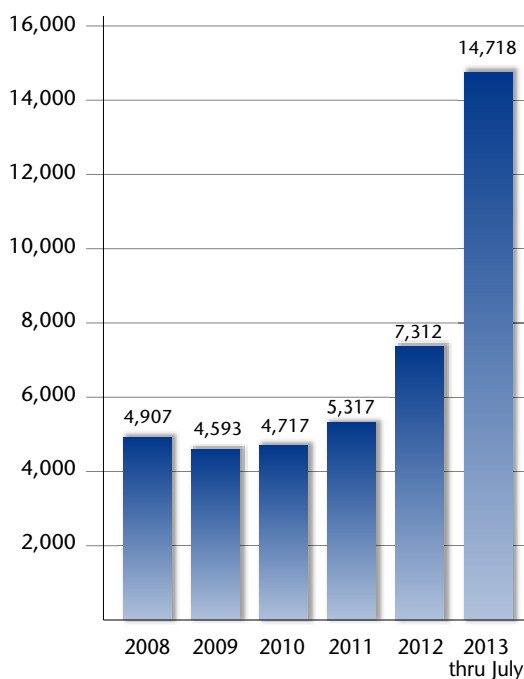
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As we reported in our *Advisor* of June 2012, as a result of “Pension Reform III,” the interest rate charged on certain service purchases doubled on April 2, 2013. This increase understandably prompted our active members to apply to purchase past service and buy back past refunds in record numbers. Between November 18, 2011 (when the legislation passed), and April 2, 2013 (the application deadline to qualify for the lower interest rate), the MTRS received 20,540 service purchase applications. Through the first seven months of 2013 alone, we received 14,718 applications—a 407% increase over the same period last year!

Number of service purchase applications filed, by year



Although we anticipated a temporary increase in the volume of service purchase applications—and increased staffing levels accordingly—the number of requests significantly exceeded projections. Be assured that we remain committed to processing all requests as expeditiously as possible, and will continue to give top priority to members who are retiring within the next four to six months.

During the first seven months of this year alone, we received 14,718 service purchase applications—a 407% increase over the same period last year!

A reminder to those members who submitted only Part 1 of your service purchase applications to meet the April 2 interest rate deadline: Please remember that Part 2 (generally, the employer portion), and Part 3 (if an out-of-state service purchase application) must be completed and sent to the MTRS, postmarked on or before October 2, 2013, to qualify to receive one invoice at the lower interest rate.

We, too, stand
BOSTON STRONG—
in support of the
Marathon bombing
victims and their
families, and
in gratitude to the
first-responders
and public safety
personnel





Jeff Wulfson, Chairman

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FROM THE CHAIRMAN

Looking ahead with eyes wide open: Investment projections must be realistic

Recent pension reforms strengthened our plan's finances inside;
we must now adopt realistic outside investment returns

MTRS has over \$20 billion in investments, funded in large part from your payroll contributions during active service. The income from these investments helps fund future pension benefits, so the recent run up in the stock market is, of course, good news.

Our investment fund, along with funds from many other Massachusetts public pension plans, is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board is chaired by Treasurer Steve Grossman and includes two MTRS members: Dennis Naughton represents the MTRS Board and Robert Brousseau is elected by the MTRS membership.

Over the past 28 years, PRIM has given us an impressive 9.5% annual return on our investments. PRIM benefits from full-time professional investment managers and from the luxury of always investing for the long term, two advantages not available to most individuals managing their own 401K savings.

MTRS financial projections currently assume that our investments will return 8.25% in the years ahead. In response to the market turmoil of recent years, most public pension

systems in the U.S. have reduced their projected rate of return to under 8%, and the MTRS Board is recommending that we do so as well. There is a growing consensus among finance experts, including our own investment managers at PRIM, that the extraordinarily high returns seen during recent decades cannot be sustained in the long term without assuming an unacceptably high level of risk.

Any reduction in the assumed rate of return will, in the short term, require additional taxpayer funding. But an unrealistically high assumption for future returns feeds public skepticism about public pension plans, notwithstanding the reforms of recent years that have greatly strengthened our finances. If we believe that a strong public pension system is of great benefit not just to our educators but to the taxpayers who support them, then we must make that argument using reasonable and realistic financial projections.

Best wishes for the coming academic year!

Stay up to date on retirement issues—

**Have retirement updates delivered right to your Inbox
when you join our e-mail list!**

Just give us your e-mail address and you'll get advance notice of upcoming seminars, important announcements and retirement news delivered right to your Inbox. It's easy!

- 1) Go to mass.gov/mtrs.
- 2) Click on **join our e-mail list** in the right margin.
- 3) Complete the simple online form with your MTRS member status (active or inactive), name and your e-mail address.
- 4) Watch your e-mail for periodic updates!

New e-mail address? No problem—just send your old and new addresses to us at geninfo@trb.state.ma.us and we'll update our records so that you don't miss any updates!



How much do state and local governments **really** spend to fund public employee retirement systems? Just 3% nationwide

State and local government pension benefits are paid not from general operating revenues, but from trust funds to which public retirees and their employers contributed while they were working. On a nationwide basis, pension contributions made by state and local governments account for roughly 3% of total spending. Current pension spending levels, however, vary widely and are sufficient for some entities and insufficient for others.

In the wake of the 2008–09 market decline, nearly every state and many cities have taken steps to improve the financial condition of their retirement plans and to reduce costs. Although some lawmakers have considered closing existing pension plans to new hires, most determined that this would increase—rather than reduce—costs, particularly in the near term. Instead, states and cities have made changes to the pension plan by adjusting employee and employer contribution levels, restructuring benefits, or both. Generally, any adjustments to pension plan costs have been proportionate to the plan's funding condition and the degree of change needed.

Three Percent Nationwide

Based on the most recent information provided by the U.S. Census Bureau, approximately 3% of all state and local

Pension costs since 1980 have been reliably stable, declining from around 4% to 3% in 2010. government spending is used to fund pension benefits for employees of state and local government. Pension costs since 1980 have been reliably stable, declining from around 4% to 3% in 2010.

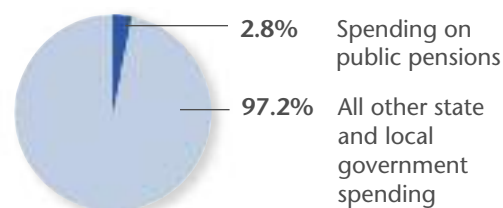
Although pensions are not the state-local budget-drain that some claim they are, spending levels for states and cities do vary from the national average, from less than 1% to more than four percent. [In Massachusetts, the total spent on contributions to pensions in 2010 was 3.36%.] One study estimates that total required spending on pensions could consume as much as 13% of one state's budget, due partly to past failures to adequately fund pension costs and assuming a relatively low 5% investment return. The chronic failure by some pension plan sponsors to pay required contributions results in greater future contributions to make up the difference.

Cost and Financing Factors

Public pensions are financed through a combination of contributions from public employers (state and local agencies) and public employees, and the investment returns on those contributions.

Employee Contributions: Because the vast majority of public employees are required to contribute toward the cost of their pension benefit—typically 4 to 8% of pay—most state and local government retirement plans are mandatory

State and local spending on public pensions as a percentage of total government spending, 2010



savings programs. In recent years, many states have increased required employee contributions.

Employer Contributions: A variety of state and local laws and policies guide governmental pension funding practices. Most require employers to contribute what is known as the Annual Required Contribution, which is the amount needed to finance benefits being accrued each year, plus the cost to amortize unfunded liabilities from past years, minus required employee contributions.

Social Security Coverage: Twenty-five to thirty percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in Massachusetts and six other states, 40% of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits—and costs—for those who do not participate in Social Security are usually higher than for those who do participate in order to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4% of payroll, or an estimated \$31.2 billion annually, these employers and employees would otherwise be paying into Social Security.

Investments and Other Parts of the Financing Equation: Although the market decline of 2008–09 lowered public pension fund asset values, macro-economic events also affect the cost of the plan. These events include such changes as retirement rates, attrition (such as hiring freezes), and wage growth (including salary cuts/layoffs). Additionally, legislatures in over 40 states have made changes to pension benefits and/or financing structures, in some cases, reducing plan costs and long-term obligations.

Conclusion

On average, retirement programs remain a small part of state and local government spending, although required costs, benefit levels, funding levels, and funding adequacy vary widely. Over \$210 billion is distributed annually from these trusts to retirees and their beneficiaries, which serves as a source of economic stimulus to virtually every city and town in the nation.

Excerpted from NASRA Issue Brief of May 9, 2013, and reprinted with permission from the National Association of State Retirement Administrators. For the full article and additional information, visit www.nasra.org.



Our Massachusetts Teachers

Who we are—and regarding our funding

A profile of our membership

Who we are...

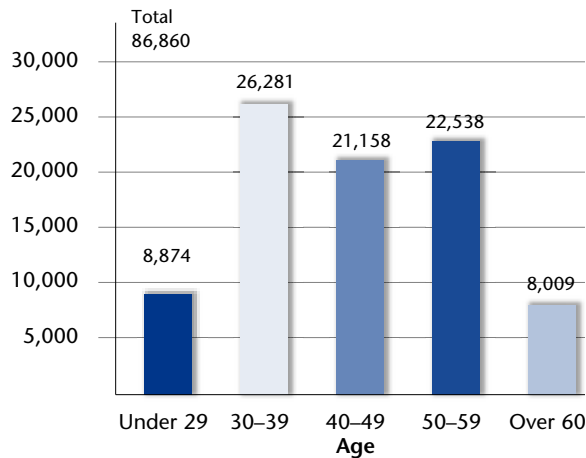
Active members

- Average salary . . . \$65,105
- Average age . . . 44.2 years
- Average service . . 12.8 years
- Total member compensation . \$5.65 billion
- Employee contributions . . \$610 million

Retired members

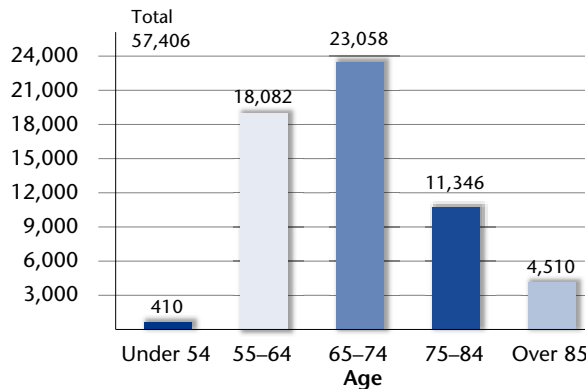
- Average annual benefit. . . \$39,403
- Average age . . . 70.4 years
- Total benefits paid . . \$2.26 billion

Our active members, by age



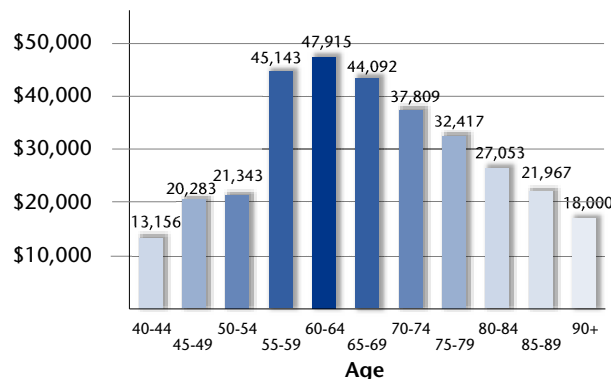
In 2004, the ratio of active members to retirees was 5:2, meaning there were five active members for every two retirees. It is now 3:2.

Our retired members, by age



This population has never been greater, with the number of older retirees continuing to grow—including 1,719 now age 90 or over.

Current average benefits by age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

Source: Public Employee Retirement Administration Commission's 2012 Actuarial Valuation of the Massachusetts Teachers' Retirement System, www.mass.gov/perac/teachers/2012teachersval.pdf

Teachers' Retirement System

ing status, where we stand

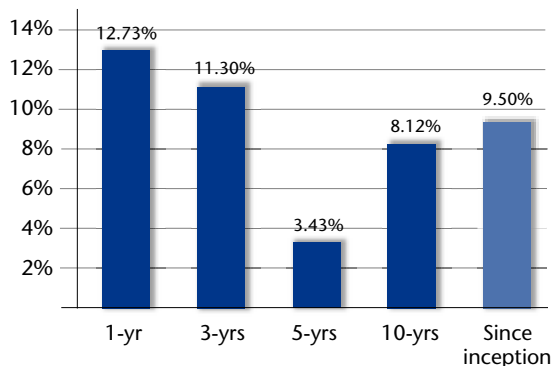
Our funding status

PRIT Fund closed FY2013 with a significant gain

Although the Pension Reserves Investment Trust (PRIT) Fund experienced significant losses as a result of the downturn in the economy in 2008, the MTRS's assets in the Fund have since increased in value. In calendar year 2008, our system's assets in the Fund decreased by \$7.3 billion, from \$24.4 billion to \$17.1 billion. Although the assets have not fully recovered since 2008, in 2009 through FY2013, investment gains have been strong, and investments now total \$22.444 billion.

The nine-member Pension Reserves Investment Management (PRIM) Board is chaired by State Treasurer and MTRS Board member Steven Grossman. Also serving on the Board and representing the interests of the teachers' retirement system are MTRS Board member Dennis Naughton and retiree Robert Brousseau, who is in his twenty-sixth year on the PRIM Board. Michael G. Trotsky, CFA is the Executive Director of the PRIM Board.

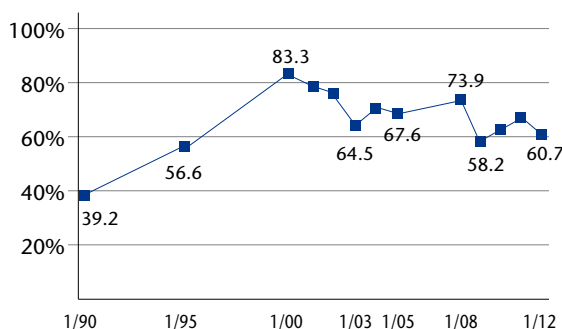
PRIT core fund performance (as of June 30, 2013)



The Legislature has set 8.25% as the pension fund's long-term rate of return target.

The system has averaged 8.12% over the past 10 years, and 9.50% since its inception in January 1985.

The MTRS's funded ratio (as of January 1, 2012)



Over the last 22 years, the system's funding ratio has ranged from a low of 39.2% to a high of 83.3%.

After a steep decrease to 58.2% in 2009, it has risen 2.5%, to 60.7% in 2012.

Where we stand...

Plan funding (as of January 1, 2012)

- Percent funded 60.7%
- Unfunded liability \$14.3 billion
- Year fully funded 2040

Investments (as of June 30, 2013)

The Teachers' Retirement System's assets are invested by the Pension Reserves Investment Management (PRIM) Board. As of June 30, 2013, our System's assets of \$22.444 billion were invested as follows:

- Global equities 45.2%
- Private equities 11.7%
- Fixed income 21.5%
- Real estate 8.2%
- Timber 4.0%
- Hedge funds 9.3%

For more information about the PRIM Board and the PRIT Fund, visit PRIM's website at mapension.com





A to-do list for active members, from enrollment to retirement

What should I be doing—and when—throughout my membership with the MTRS?

When you join the MTRS...

- ☐ Complete the MTRS enrollment process
- ☐ Forward a completed beneficiary form to designate the recipient(s) of your survivor benefits in the event of your passing while an active member
(see article on page 8 for a description of in-service death survivor benefits)
- ☐ Check your pay stub on a regular basis to ensure that your retirement contributions are being deducted from your earnings at the proper rate
- ☐ Apply to purchase any prior eligible creditable service

During your membership, notify us if you...

- ☐ Are injured performing your job
- ☐ Change your name or Social Security number
- ☐ Wish to change your beneficiary designation
- ☐ Get divorced
- ☐ Wish to run for election to the MTRS Board or the PRIM Board

Within five to ten years of retiring...

- ☐ Use our online tools to estimate what your benefit will be
- ☐ Be informed—attend our educational seminars and review our website
- ☐ Research your retiree health insurance and, if you are also eligible to receive Social Security benefits, the two offset provisions

Within six months to one year of retiring...

- ☐ Make certain all service purchases are completed and credited
- ☐ Apply for continuing health insurance coverage with your employer
- ☐ Complete the retirement application process
- ☐ Review the rules for working after retirement *(see article on page 7)*
- ☐ Contact our agency with any questions you might have

What does the MTRS do for you?

- ☒ Maintain your MTRS Annuity Savings Account, and send you annual statements reflecting your beneficiaries, contributions, interest and total balance
- ☒ Keep you informed of retirement issues via our website, publications and educational seminars
- ☒ Process your service purchases, if any, and your application for retirement

Membership is a benefit and a very important part of your financial future—the MTRS is your retirement plan. If you eventually retire, you will find your MTRS benefit to be a major financial asset. We look forward to serving you and your family for 20, 40 or 60 years—or more!

MTRS Board clarifies the earnings limit for MTRS retirees who return to work for a Massachusetts public employer

New policy to take effect for calendar year 2014 (effective January 1, 2014)

Pursuant to G.L. c. 32, § 91(b), MTRS retirees who render service to a Massachusetts governmental unit are subject to time and earnings restrictions. In a calendar year, the retiree may not work more than 960 hours and the earnings from said service cannot exceed the difference between the salary being paid for the position from which the member retired (Salary Being Paid) and the amount of his or her pension (plus \$15,000, if retired for more than one January-through-December calendar year period). *See chart, below, for a summary of these restrictions.*

If interpreted literally, § 91(b) would prevent a teacher who retires at the top of the pay scale and is replaced with a new teacher on the first step from working after retirement. Thus, the MTRS's longstanding practice is to base the Salary Being Paid for a member who retires under a collective bargaining agreement on the amount listed in the current salary schedule for the member's step and education level at retirement.

For administrators and other educators covered by individual contracts, there is no current salary schedule to rely upon since compensation amounts are negotiated individually. A literal interpretation of §91(b) for such a retiree would prevent the retiree from working after retirement if the successor is paid at a lower salary, or could result in a windfall if the successor is paid at a higher salary than the retiree would have received if he had remained in service. The Appeals Court, in *Pellegrino v. Springfield Parking Authority*,¹ interprets § 91(b) to mean

that a retiree may not, by combining his pension with post-retirement earnings, make more money than he would have if he had not retired. In order to treat members who are not covered by collective bargaining agreements the same as those who are, and to be consistent with the Appeals Court, the MTRS Board has adopted a new policy,² effective January 1, 2014, as follows:

When determining the Salary Being Paid for a retiree who was not covered by a collective bargaining agreement at retirement, unless the retiree provides sufficient evidence for the MTRS to reliably determine what the retiree would have earned in a year after his or her retirement, staff shall calculate the retiree's Salary Being Paid using the salary that the retiree received during his or her last year of employment, indexed each year according to the Consumer Price Index, as certified by the Commissioner of Social Security (CPI-W).

As always, if you have any questions about this new policy, please contact us at 617-679-6877.

¹ *Pellegrino v. Springfield Parking Authority*, 69 Mass.App.Ct 94, 100 (2007).

² Until January 1, 2014, the Board's current policy remains in effect, which is to base the Salary Being Paid on the successor's salary if it is higher than the retiree's last salary, and, if lower, to use the retiree's last salary before retirement plus CPI.

A summary of the post-retirement employment restrictions for MTRS retirees returning to work with a Massachusetts public employer	When NO critical shortage	When a critical shortage IS declared by ESE	
	ALL MTRS Retirees	Retirees under Regular formula	Retirees under RetirementPlus
1) Time limitation: 960 hours in a calendar year.	Applies	Waived	Waived
2) Earnings limitation (for superannuation retirees): On a calendar year basis, a rehired retiree's post-retirement earnings cannot exceed the difference between the current salary of the position from which the member retired, and the amount of his or her annual pension. After the member has been retired for at least one full calendar year (one full January-through-December year), this earnings limit is increased by \$15,000. <div> <div>Date of retirement</div> <div>Date eligible to earn additional \$15,000</div> <div>1/1/2012 – 12/31/2012</div> <div>1/1/2014</div> <div>1/1/2013 – 12/31/2013</div> <div>1/1/2015</div> <div>1/1/2014 – 12/31/2014</div> <div>1/1/2016</div> </div>	Applies	Waived	Applies for first two year of member's retirement; waived thereafter
3) Separation from service: If returning to same employer from which the member retired, 60 days. <i>Exception:</i> Presently, this particular restriction does not apply if the member retired <i>either</i> at age 65 or older <i>or</i> at the maximum benefit amount of 80% of his or her final salary average.	Applies	Applies	Applies

Q&A: Survivor benefits for active members

There are two types of survivor benefits, lump-sum and member-survivor; understand the difference, and be sure to keep your beneficiary designation up to date

As an active member of the MTRS who is making regular payroll contributions or who is on an authorized leave of absence, you provide a survivor benefit as described below in the event that you die while you are still in active service. Survivors of inactive members are subject to different rules.

There are two types of survivor benefits: a lump-sum payment and a monthly, member-survivor benefit.

If I should die while I am an active member, what benefits will my survivors be entitled to?

The type of benefit that survivors receive depends upon their relationship to you as well as what type of beneficiary you specified and who you named as a beneficiary on your Beneficiary Designation Form.

- A **lump-sum beneficiary** will receive your accumulated contributions and interest in a single, lump-sum amount. There are no restrictions on who may be a lump-sum beneficiary and you may name more than one person or entity, designating the percentage of the lump-sum that each is to receive. You may also name contingent beneficiaries who will be paid in the event that the primary lump-sum beneficiary is not alive at the time of your death.
- A **member-survivor beneficiary** will receive a monthly allowance instead of a lump-sum payment. A member-survivor beneficiary must be your parent, sibling, child, spouse or former spouse who has not remarried. You may designate only one member-survivor beneficiary.

Pursuant to Massachusetts law, however, your surviving spouse and/or the guardian of your dependent children may have a superior legal right to any benefits awarded as a result of your death. This means that, regardless of who you named as a beneficiary, if you are survived by a spouse and/or dependent children, and your spouse and/or dependent children meet certain requirements, your spouse and/or the guardian of your dependent children may elect to receive the monthly member-survivor benefit.

How do I know who the MTRS has on record as my beneficiary?

There are two ways. First, as an active member, you will receive an annual statement of your annuity savings account which shows your account balance as well as the name(s) of your beneficiary(ies). Second, you can always send us a written request for this information and we will respond in writing. Unfortunately, we cannot provide this information over the phone.

If I am survived by my spouse, is he or she entitled to any guaranteed benefit?

Yes—if your spouse is named as the member-survivor beneficiary, he or she will be entitled to *either* the member-survivor monthly benefit, *or*, if he or she meets the eligibility requirements below, a guaranteed minimum payment, whichever is greater.

For your spouse to qualify for the guaranteed minimum payment (currently, \$500 per month) as well as an additional set allowance for dependent children (currently, \$120 per month for the first child and \$90 for each additional child):

- your spouse must have been living with you at the time of your death or living apart for justifiable cause and
- your spouse must have been married to you for at least one year and
- you must have been a member in service at the time of your death and
- you must have completed at least two full years of creditable service.

If there is no surviving spouse, the guardian of the surviving dependent children may be entitled to the monthly member-survivor benefits.

Reminder: Update your beneficiary designation in light of life events. Review your designation if and when:

- ☐ you marry or divorce;
- ☐ you have a child;
- ☐ your beneficiary marries or divorces;
- ☐ your beneficiary dies; or
- ☐ your beneficiary changes his or her name.



To update your information, access and download a *Beneficiary Designation Form* at mass.gov/mtrs.

What does my beneficiary need to do to claim his or her benefits?

Your beneficiary should contact our office and speak to one of our Member Services representatives. Based on the type of beneficiary you have designated, we will then send your beneficiary the appropriate application; he or she must then complete this application and submit it, along with the required documents, to us for processing. If applicable, we may require that your beneficiary submit a copy of your marriage certificate, military discharge record (DD214) and/or certified birth records for you, your spouse and your dependent children. We will then let your beneficiary know what the next steps are and whether we need any additional documentation.